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WHY YOUR TAXES HAVE BEEN GOING UP: SURTAXES

June 1987

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WHY YOUR TAXES HAVE BEEN GOING UP: SURTAXES

A 'surtax' is a special tax above and beyond normal income tax. To raise more money, the federal government recently imposed two surtaxes.

Budget Changes

The May 1985 Budget brought in a surtax on higher-income taxpayers. The high-income surtax was calculated as five percent of basic federal tax between \$6,000 and \$15,000 and ten percent of basic federal tax above \$15,000 and was in effect from July 1985 to December 1986. One-earner couples with two children, for example, were subject to the five percent surtax if their 1986 earnings exceeded \$43,000 and those earning more than \$76,300 paid the ten percent rate as well as the five percent rate.

The February 1986 Budget added another surtax - the 'individual surtax' - equal to three percent of basic federal tax, effective on Canada Day, 1986. Unlike the high-income surtax, the individual surtax hits all taxpayers regardless of their income.

Another important difference is that the high-income surtax was a temporary measure that lasted only eighteen months. The individual surtax, by contrast, had no time limit set on it when it was introduced.

The Effects of the Surtaxes

Tables 1 through 4 show how much of each surtax families and individuals at different income levels paid in 1986 and 1987. Table 1 looks at two-earner couples with two children, Table 2 at one-earner couples with two children, Table 3 at one-parent families with one child and Table 4 at single women and men.

Table 1 indicates that in 1986 all but the poorest (\$10,000) two-earner families paid the individual surtax, which applied for half the year. The individual surtax came to \$19 for a couple supporting two children on earnings of \$20,000. (Adding in the family allowance and child tax credit, its total income came to \$21,526 which is virtually the same as the \$21,665 poverty line for a four-person family living in a metropolitan center of 500,000 or more). Only the two highest-income families shown, with combined spouses' earnings of \$80,000 and \$100,000, had to pay the high-income surtax. The \$100,000 couple paid \$372 in high-income surtax, for a total surtax of \$647 or less than one percent of earnings.

The picture changes in 1987. Now the high-income surtax has ended and the individual surtax is in effect for the entire year. (We assume that earnings increase by inflation, estimated at four percent). The \$20,000 family pays \$44 or \$25 more than last year. The \$50,000 couples faces a \$113 increase. However, the upper-income families get off easily

because they no longer have to pay the high-income surtax; the \$80,000 couple pays just \$25 more than last year (the same increase as the \$20,000 family) while the \$100,000 couple actually ends up paying **less** surtax in 1987 than 1986.

The other tables tell the same story. **Low and middle-income families and single Canadians pay more surtax this year than last, while the affluent are better off because they no longer have to pay the high-income surtax.**

Income Category	1986	1987	Change
\$10,000	10	10	0
\$20,000	20	20	0
\$30,000	30	30	0
\$40,000	40	40	0
\$50,000	50	50	0
\$60,000	60	60	0
\$70,000	70	70	0
\$80,000	80	80	0
\$90,000	90	90	0
\$100,000	100	100	0

Income Category	1986	1987	Change
\$10,000	10	10	0
\$20,000	20	20	0
\$30,000	30	30	0
\$40,000	40	40	0
\$50,000	50	50	0
\$60,000	60	60	0
\$70,000	70	70	0
\$80,000	80	80	0
\$90,000	90	90	0
\$100,000	100	100	0



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Table 1

**Federal Surtaxes, Two-Earner Couple With Two Children,
by Family Earnings, 1986 and 1987**

Employment Earnings	High-Income Surtax	<u>1986</u> Individual Surtax	Total Surtaxes	<u>1987</u> Individual Surtax	Change 1987/1986
\$ 10,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
20,000	0	19	19	44	25
30,000	0	46	46	99	53
40,000	0	74	74	160	86
50,000	0	99	99	212	113
80,000	186	203	389	414	25
100,000	372	275	647	563	-84

Table 2

**Federal Surtaxes, One-Earner Couple With Two Children,
by Earnings, 1986 and 1987**

Employment Earnings	High-Income Surtax	<u>1986</u> Individual Surtax	Total Surtaxes	<u>1987</u> Individual Surtax	Change 1987/1986
\$ 10,000	\$ 0	\$ 1	\$ 1	\$ 2	\$ 1
20,000	0	25	25	55	30
30,000	0	54	54	118	64
40,000	0	80	80	173	93
50,000	84	115	199	230	31
80,000	562	242	804	493	-311
100,000	1,194	337	1,531	690	-841

Table 3

**Federal Surtaxes, Single Parent With One Child, by Earnings,
1986 and 1987**

Employment Earnings	High-Income Surtax	1986 Individual Surtax	Total Surtaxes	1987 Individual Surtax	Change 1987/1986
\$ 10,000	\$ 0	\$ 1	\$ 1	\$ 2	\$ 1
20,000	0	26	26	52	26
30,000	0	56	56	110	54
40,000	0	82	82	161	79
50,000	89	117	206	229	23
80,000	573	243	816	461	-355
100,000	1,206	338	1,544	641	-903

Table 4

**Federal Surtaxes, Single Person, by Earnings,
1986 and 1987**

Employment Earnings	High-Income Surtax	1986 Individual Surtax	Total Surtaxes	1987 Individual Surtax	Change 1987/1986
\$ 10,000	\$ 0	\$ 10	\$ 10	\$ 22	\$ 12
20,000	0	37	37	79	42
30,000	0	70	70	147	77
40,000	22	97	119	203	84
50,000	149	135	284	284	0
80,000	709	264	973	535	-438
100,000	1,341	359	1,700	732	-968

